

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1955

- | | |
|-----------------------------|-----------------------------|
| MEMBERS: | EXECUTIVE COMMITTEE: |
| Chairman: Edward E. Hines | Chairman: Edward E. Hines |
| Members: Robert V. Roeder | Members: Robert V. Roeder |
| Members: William D. Hester | Members: William D. Hester |
| Members: Harry C. Alexander | Members: Harry C. Alexander |
| Members: Frank B. Denton | Members: Frank B. Denton |
| Members: Herbert C. Taylor | Members: Herbert C. Taylor |

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| Chairman: Edward E. Hines | | Chairman: Edward E. Hines |
| Members: Robert V. Roeder | | Members: Robert V. Roeder |
| Members: William D. Hester | | Members: William D. Hester |
| Members: Harry C. Alexander | | Members: Harry C. Alexander |
| Members: Frank B. Denton | | Members: Frank B. Denton |
| Members: Herbert C. Taylor | | Members: Herbert C. Taylor |

February 13-15, 1955

May 15-17, 1955

September 18-20, 1955

November 13-15, 1955

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1955

OFFICERS:

President, Edward E. Brown
Vice President, Robert V. Fleming
Director, William D. Ireland
Director, Henry C. Alexander
Director, Frank R. Denton
Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Robert V. Fleming
William D. Ireland
Henry C. Alexander
Frank R. Denton

MEMBERS:

William D. Ireland	District No. 1
Henry C. Alexander	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Wallace M. Davis	District No. 6
Edward E. Brown	District No. 7
W. W. Campbell	District No. 8
Joseph F. Ringland	District No. 9
Charles J. Chandler	District No. 10
George G. Matkin	District No. 11
John M. Wallace	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, Vice President, three Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and to communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 13, 1955

William D. ...
Henry C. ...
William E. ...
Frank H. ...
Robert V. ...
William A. ...
Robert H. ...
W. W. ...
James I. ...
Charles I. ...
George E. ...
John M. ...
Robert V. ...

District No. 1
District No. 2
District No. 3
District No. 4
District No. 5
District No. 6
District No. 7
District No. 8
District No. 9
District No. 10
District No. 11
District No. 12
Secretary

Mr. Robert ...
The Secretary ...
Federal Reserve ...
the Council for the year 1955.

The following officers were ...
Robert V. ...
William A. ...
Henry C. ...
Frank H. ...
Robert V. ...

On ...
The Secretary ...
The ...
and ...

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 13, 1955

The first and organizational meeting of the Federal Advisory Council for the year 1955 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 13, 1955, at 2:10 P.M.

Present:

William D. Ireland	District No. 1
Henry C. Alexander	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Wallace M. Davis	District No. 6
Edward E. Brown	District No. 7
W. W. Campbell	District No. 8
Joseph F. Ringland	District No. 9
Charles J. Chandler	District No. 10
George G. Matkin	District No. 11
John M. Wallace	District No. 12
Herbert V. Prochnow	Secretary

Mr. Robert Fleming was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1955.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
William D. Ireland, Director
Henry C. Alexander, Director
Frank R. Denton, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually.

On motion, duly made and seconded, the Council approved the by-laws, copies of which are a part of these minutes.

The Secretary presented his financial report for the year 1954, which had been audited by Mr. Irving E. Carlson, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 14, 15, 16, 1954; May 16, 17, 18, 1954; September 19, 20, 21, 1954; November 14, 15, 16, 1954; and the mimeographed notes of the meeting held November 14, 15, 16, 1954, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute \$450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1955, and to draw upon it for that purpose.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 8, and 9.

The meeting adjourned at 5:45 P.M.

HERBERT V. PROCHNOW
Secretary

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1954

Balance on hand, December 31, 1953	\$ 7,398.27	Salaries	\$ 3,000.00
		Conference Expense	1,208.21
		Printing and Stationery	434.00
Assessments— 12 Federal Reserve Banks	5,400.00	Postage, Telegrams and Telephone	6.06
		Balance on hand, December 31, 1954	8,150.00
	<u>\$12,798.27</u>		<u>\$12,798.27</u>

Chicago, Illinois
February 1, 1955

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1954, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) Irving E. Carlson
Assistant Auditor

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1955

At 10 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, William R. K. Mitchell, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

Absent: Mr. Frank R. Denton.

The Council reviewed its conclusions of the previous day regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 8 and 9, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 11:40 P.M. on February 14, 1955.

The meeting adjourned at 11:20 P.M.

HERBERT V. PROCHNOW
Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE
JOINT MEETING ON FEBRUARY 15, 1955

1. The Board would like to have the comments of the members of the Council on the business and economic outlook throughout the winter and spring months and the probable demand for bank loans in that period compared with the same period in 1954.

Business activity generally is at a high level in all the districts. The automobile and construction industries, which affect the production of many other major industries, especially steel, are in a significant measure responsible for the increased volume of business in recent weeks. Retail sales are good. Inventory accumulation is moderate. Consumer demand is strong, and business sentiment is favorable.

The members of the Council believe that the business and economic outlook for the winter and spring months is good. In most of the districts it is expected that loans for business and commercial purposes will be slightly less than in the first half of 1954. But an increase in loans on real estate, for consumer credit, to investment dealers, and to mortgage bankers to finance new construction will more than offset any decrease in business and commercial loans so that total bank loans for the winter and spring months will be slightly above the preceding year, with some variation probable from district to district.

2. In addition to the views of the Council on the general business situation, the Board is interested in knowing the thinking of the members of the Council with respect to the following matters:
 - a. The Board would like to have the views of the Council with respect to arrangements recently made by insurance companies under which they place temporarily with banks mortgages acquired by the companies.

For a number of years, it has been customary for mortgage brokers representing insurance companies to borrow temporarily from local banks for the purpose of carrying mortgages to be acquired by the insurance companies under commitments given by them. In many cases the carry is for a period beyond the date on which the insurance companies had originally planned or contracted to take up the mortgages. Such extended carrying arrangements are ordinarily made by the mortgage broker after a request by the insurance company to him. Occasionally the insurance company will make a direct request to a bank for such a carry.

The Council is aware of one important recent case in which an insurance company has arranged for banks to carry mortgages already owned by it under a repurchase agreement. The Council understands that in this instance the insurance company does not operate primarily through mortgage brokers, but through its own direct agents. The transaction to which reference is made is obviously neither illegal nor improper.

There have been in banks over the years many types of carrying agreements, and they have been helpful in the desirable objective of evening out the flow of savings into

investment. The increase at present in the volume of such carrying arrangements stems in part from the housing boom, and may be an indication of a possible inadequacy of savings, or capital formation, to meet current capital expenditures. Any sustained tendency for capital expenditures to outrun capital formation will result in inflation with its attendant economic problems.

- b. To what extent is money borrowed from banks in the form of "non-purpose" loans being used to purchase stocks? What could be done by bank supervisory authorities to restrict such borrowing should it become excessive?

The members of the Council believe that the amount of "non-purpose" loans which have been made to purchase stocks is relatively insignificant, and that no recent important increase in such loans has occurred. However, it is difficult and often impossible clearly to trace the ultimate use made of borrowed funds. In the case of "non-purpose" loans, there does not appear to be any satisfactory and effective way of policing such loans which policing would not involve banks in constant and continuing harassment of their customers. The Council does not believe that there is any present or threatened situation which would warrant further action by the supervisory authorities.

- c. Concern continues to be expressed in some quarters as to the soundness of current developments in the residential construction and mortgage field. To what extent do the members of the Council share this concern?

The housing boom which was experienced in 1954, and is continuing into 1955, has been a major influence in sustaining the entire economy. However, the present extraordinary rate of housing starts is in a large measure the result of the exceptionally liberal terms established by legislation last year. With the current upturn in business, the Council is concerned that the continuing encouragement to a further expansion in the housing boom, due to the present legislation, will ultimately have unfortunate repercussions in the economy. The members of the Council therefore believe that present legislation should be changed to provide (1) that reasonable down payments be made on FHA and VA mortgages and (2) that maturities be shortened.

- d. What will be the trends in consumer credit and particularly in consumer instalment credit during the next six months?

The members of the Council believe that consumer credit and consumer instalment credit will increase during the next six months, because of the high rate of automobile sales, and the increase in housing completions with the demand new houses create for various types of household equipment. The liberalized provisions of Title I may also tend to increase the volume of instalment credit.

3. What have been the effects of System credit policies since the last meeting of the Council? Should these policies be changed in any way in the light of the business and economic situation in the foreseeable future?

System credit policies since the last meeting of the Council have been extremely well handled and have been helpful to the economy. The Council is in accord with the actions of the System in open market operations, in leaving the rediscount rate unchanged, and in raising margin requirements on stocks. The main effect of raising margin requirements was psychological, but was constructive.

The Council has no change to suggest in System credit policies under present conditions. However, if stock market prices should have a further rapid rise, even if it involves no appreciable further use of credit, the Council believes consideration should be given to an additional increase in margin requirements.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1955

At 2:15 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Messrs. William D. Ireland, Henry C. Alexander, William R. K. Mitchell, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

Absent: Mr. Edward E. Brown, President, and Mr. Frank R. Denton.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors of the Federal Reserve System, and members of the Staff presented an audio-visual report on "Recovery in the United States and Expansion Abroad". Copies of the remarks were distributed to the members of the Council.

The meeting adjourned at 3:50 P.M.

HERBERT V. PROCHNOW
Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 15, 1955

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC. Martin, Jr.; Governors M. S. Szymczak, R. M. Evans, James K. Vardaman, Jr., A. L. Mills, Jr., J. L. Robertson, and C. Canby Balderston; also Mr. S. R. Carpenter, Secretary, and Mr. Merritt Sherman, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, William R. K. Mitchell, Frank R. Denton, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace and Herbert V. Prochnow, Secretary.

President Brown read the first item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 8 and 9 of these minutes.

Chairman Martin asked how much impact the earlier introduction of new automobile models has had on seasonal trends?

Mr. Alexander replied that he believes the spring season has been quite fully anticipated.

The President of the Council then read Item II (a) of the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* previously mentioned. President Brown added present indications are that capital formation is not keeping up with capital expenditures.

Chairman Martin said that when an insurance company pledges mortgages to borrow still more, it is the beginning of pyramiding which is dangerous if carried to excess.

President Brown read Item II (b) and the conclusions of the Council as reported in the *Confidential Memorandum* mentioned above.

Item II (c) and the conclusions of the Council as noted in the *Confidential Memorandum* were then read by President Brown.

The President of the Council read Item II (d) and the conclusions of the Council as stated in the *Confidential Memorandum* cited above.

A general discussion followed the reading of Item II (b), (c), and (d) of the agenda and the conclusions of the Council.

President Brown then read Item III and the conclusions of the Council as reported in the *Confidential Memorandum* mentioned above.

At Chairman Martin's suggestion, Governor Robertson reported on the new Holding Company Bills pending in Congress.

Chairman Martin stated that the meeting had been very helpful to the Board.

The meeting adjourned at 12:55 P.M.

HERBERT V. PROCHNOW
Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H. V. P.

The Secretary's notes of the meeting of the Federal Advisory Council on February 13, 1955, at 2:10 P. M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

Robert V. Fleming was elected Chairman pro tem and Herbert V. Prochnow was elected Secretary pro tem.

The Secretary pro tem stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives on the Council for the year 1955.

On motion, duly made and seconded, the by-laws were approved.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
William D. Ireland, Director
Henry C. Alexander, Director
Frank R. Denton, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually.

The Secretary presented his financial report for the year 1954, which had been audited by Mr. Irving E. Carlson, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. It will be printed and included in the formal printed minutes.

A motion was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for \$450 for the secretarial and incidental expenses of the Federal Advisory Council for the year 1955.

The Council approved the Secretary's notes for the meeting of November 14-16, 1954. The printed minutes for all the 1954 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

President Brown was slightly indisposed and asked Vice President Fleming to preside.

ITEM I

THE BOARD WOULD LIKE TO HAVE THE COMMENTS OF THE MEMBERS OF THE COUNCIL ON THE BUSINESS AND ECONOMIC OUTLOOK THROUGHOUT THE WINTER AND SPRING MONTHS AND THE PROBABLE DEMAND FOR BANK LOANS IN THAT PERIOD COMPARED WITH THE SAME PERIOD IN 1954.

Ireland. The economy in the first district is on a firm basis. Some readjustments are still being made in textiles, and there is some pressure on prices. Department store sales and savings are good. Bank loans probably will increase moderately in the next six months and total bank loans probably will be a little higher than they were in the first six months of 1955, which may be contrary to the national trend.

Alexander. At the time of the last meeting of the Council, business was lagging in the second district, but it is now showing substantial improvement. Employment is better, construction is at a high level, and general business activity is strong. January retail sales were up over a year ago. The textile business is not strong, but it is better. Total bank loans for New York City are up slightly, although business loans are down. Alexander believes bank loans may rise in the Spring. Consumer credit may also rise with the increase in automobile sales. Bank loans should be on the firm side and may get back close to the 1954 level.

Denton. Business in the district is good and is tied closely to the automobile situation. Consumer loans are increasing. Larger commercial loans have given little indication of increasing. Consumer goods are in substantial demand. Retail business is quite satisfactory. The construction industry may, to some extent, be borrowing from the future. Denton's bank expects about a 6 per cent increase in loans, largely consumer credit, but it is not expected that the total loans in the bank will be as large as they were a year ago.

Fleming. Bank loans have declined somewhat since the first of January, but the decline is not as great as it was a year ago. Some pickup in loans is anticipated this Spring, but the total volume of bank loans will probably not be as large as it was a year ago. Department store sales at Christmas were excellent, and they were good in January up to the recent bad weather. Car sales are very good. Tobacco production is increasing.

Davis. The economic situation in the district is generally good. There is no appreciable carryover of debt in the district. Business loans in the larger cities are up over a year ago. Davis expects the trend of loans to be up moderately through Spring.

Brown. Good business is expected through the Winter and Spring months. The heavy production of automobiles should result in some slowing down later for the industry. Business loans will be up moderately, but will probably not reach as high a level as they did a year ago. Loans on real estate, to

investment dealers, for consumer credit, and to mortgage brokers to finance new construction, will tend to offset any decline in business and commercial loans. Total bank loans for the Winter and Spring months probably will be a little above the same period in 1954.

Campbell. Non-farm employment in the fourth quarter was up more than seasonally. Cash farm receipts for the first 11 months of 1954 were down about 8 per cent from 1953. In the next six months, business will probably go up slightly, with higher retail sales and a larger volume of construction. Consumer and real estate loans are rising. Total bank loans in the first half of the year will probably be somewhat above the same period in 1954.

Ringland. Business is unusually good. Automobile sales are at a high level. Consumer credit should increase in the months ahead. Ringland expects some rise in business loans this Spring, but does not believe these loans will be above 1954 levels.

Chandler. The district has had about three years of drought. Bank loans have been going up, largely because of real estate and construction loans. There is no real unemployment. Department store sales are up. Cattle prices are low, and with the drought the loans of many country banks are down, but the loans of city banks are up.

Matkin. Business is good and there is more optimism than usual. They hope that the drought may be broken. The district produced more cotton than it did the year before. There are dangers in the present housing situation. The demand for loans has been strong. Consumer credit is expected to increase. Installment paper terms are lengthening. There should be some increase in bank loans in the Spring.

Wallace. Business has been good. The aircraft industry has done exceptionally well. Construction is at a high level. Retail sales are up. The increase in unemployment during the Winter has been less than usual. The new cars have had an excellent reception. There has been a serious drought in the area. Loans are up a little now compared to a year ago, and Wallace expects a moderate uptrend in loans to a level somewhat above a year ago.

Mitchell. Unemployment has been at a comparatively higher level in the district than it has been over the rest of the country. Department store sales are now up. Automobile sales are exceptionally good. Business for the first half of 1955 should be good. Mitchell expects a slightly rising trend in business loans. Total loans are about equal to a year ago. Consumer credit loans will continue to rise and construction loans may go even higher than they are at present. Total bank loans probably will be somewhat higher in the first six months of 1955 than they were in 1954.

Fleming. The Council may state that all districts anticipate a good level of business for the Winter and Spring months. Total bank loans during the period probably will be slightly above the preceding year with some variation probable from district to district.

ITEM II

IN ADDITION TO THE VIEWS OF THE COUNCIL ON THE GENERAL BUSINESS SITUATION, THE BOARD IS INTERESTED IN KNOWING THE THINKING OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE FOLLOWING MATTERS:

- a. THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL WITH RESPECT TO ARRANGEMENTS RECENTLY MADE BY INSURANCE COMPANIES UNDER WHICH THEY PLACE TEMPORARILY WITH BANKS MORTGAGES ACQUIRED BY THE COMPANIES.
-

Fleming reads Item II (a) and asks the members of the Council to express their views.

Brown states that for a number of years banks have been extending credit to mortgage bankers on a hit or miss basis in relatively small amounts. The recent transaction involved a very large sum and was for a rate of interest that many considered relatively high. One problem in connection with this matter is the question of the extent to which insurance companies are heavily committed on such obligations.

Alexander has heard of no other cases involving large amounts.

Fleming states that there are cases of insurance companies who have agents or mortgage brokers who borrow from the banks.

Ireland mentions another case in which a company sold some of its corporate bonds to handle such financing.

Alexander says that the large loan which was made recently by one company was not illegal, but it raises the question of using two years' savings in one year. This is related to Item II-c. The recent large loan which was made by an insurance company tends to accelerate the housing boom.

Ringland. Perhaps this^{is} what the Board of Governors had in mind when they included this item on the agenda.

Brown. This problem^{applies} not only to housing but to other fields. It indicates that capital expenditures may be tending to outrun capital formation.

Alexander reports on a recent survey which pointed out that there may be a shortage in the capital required in 1955. Banks would be expected to make up the difference between savings and capital expenditures.

Fleming believes that, on balance, insurance companies have been sellers of Government obligations.

Brown. The Council may state that it knows of no recent important departure, except one, from the customary procedure of having mortgage brokers borrow from their local banks. The Council understands that the method recently employed by one large borrower is due to the fact that this company does not have mortgage brokers.

Alexander. There are many types of carrying arrangements in banks and they have been used over a period of many years to even out the flow of savings into investment. The increased volume of carrying may be a manifestation of the inadequacy of savings to take care of capital expenditures. The present situation stems, in part, from the housing boom.

Brown. The recent large transaction may indicate that the capital supply is less than capital expenditures. The transaction referred to is obviously neither illegal nor improper. Any sustained tendency for capital expenditures to outrun capital formation would create an inflationary situation.

ITEM II b.

- b. TO WHAT EXTENT IS MONEY BORROWED FROM BANKS IN THE FORM OF "NON-PURPOSE" LOANS BEING USED TO PURCHASE STOCKS? WHAT COULD BE DONE BY BANK SUPERVISORY AUTHORITIES TO RESTRICT SUCH BORROWING SHOULD IT BECOME EXCESSIVE?

Fleming reads Item II b. and asks for the views of the members of the Council. Fleming states that it is very difficult to determine what funds are going into the stock market.

Brown comments that a business or an individual may use funds to buy stock and later borrow for business purposes. It is difficult, if not impossible, to trace the use of funds. (Off-the-record comments).

Alexander. Many illustrations could be given of the difficulty of tracing the exact purpose for which a loan is made.

Brown knows of no large increase in loans for the purpose of buying stocks. There always has been some use of funds for buying stocks.

Alexander. If the borrower says he is borrowing to purchase stocks, the purpose is known and it is a stock loan. If the purpose is not known, the loan obviously cannot be classified as being used to purchase stocks.

Brown. The amount of "non-purpose" loans outstanding for buying stocks is insignificant. The Council may state it knows of no important increase in such loans. The Council also knows of no effective way of policing such loans, which would not lead to great difficulties between banks and their customers.

ITEM II c.

- c. CONCERN CONTINUES TO BE EXPRESSED IN SOME QUARTERS AS TO THE SOUNDNESS OF CURRENT DEVELOPMENTS IN THE RESIDENTIAL CONSTRUCTION AND MORTGAGE FIELD. TO WHAT EXTENT DO THE MEMBERS OF THE COUNCIL SHARE THIS CONCERN?
-

Fleming shares the concern of those who are troubled by current developments in the residential construction and mortgage field.

Wallace. When a borrower gets a thirty year mortgage, he is not borrowing, but is simply paying rent. The borrower can walk out any time.

Fleming. The Council may state that it is unanimous in sharing the concern about this situation.

Brown states that the Council may have to indicate the extent of its concern. The present housing legislation expires in 1957, and there are many veterans who have not taken advantage of it. There are some persons who argue that the law should be extended so it expires at a later date, which would spread out the use of this financing by veterans over a longer period. Brown believes this is unwise. He believes the law should be changed so that maturities are shortened and reasonable down payments are required on FHA and VA mortgages.

Fleming. The Council recognizes that the construction boom was a sustaining influence in the economy in 1954. However, with a business upturn, there should be some dampening down in the legislation to provide: (1) Reasonable down payments on VA and FHA mortgages; and: (2) Shorter maturities.

ITEM II d.

- d. WHAT WILL BE THE TRENDS IN CONSUMER CREDIT AND PARTICULARLY IN CONSUMER INSTALMENT CREDIT DURING THE NEXT SIX MONTHS?
-

Fleming states that he believes it is the opinion of the Council that consumer credit will increase during the Winter and Spring months.

Brown. The Council may state that consumer credit will increase because of the high rate of automobile sales, and the increase in housing completions with the demand new houses create for various types of household equipment.

Wallace. The liberalized provisions of Title I may further increase the volume of instalment credit.

ITEM III

WHAT HAVE BEEN THE EFFECTS OF SYSTEM CREDIT POLICIES SINCE THE LAST MEETING OF THE COUNCIL? SHOULD THESE POLICIES BE CHANGED IN ANY WAY IN THE LIGHT OF THE BUSINESS AND ECONOMIC SITUATION IN THE FORESEEABLE FUTURE?

Brown. The Federal Reserve System has been a net purchaser of Treasury Bills, which was undoubtedly done to help the Treasury in the recent financing. The System has done a good job in the open market.

Alexander states that he would not be inclined to raise the rediscount rate now. There are two views: One that credit should now be tightened somewhat because of the business upturn and to keep the level of business even; the second view is that there is no certainty that the business upturn will continue. (Off-the-record comments).

Brown would not like to see any move by the Board which would prevent "digesting" the recent 3 per cent, 40 year issue, and he does not believe this issue has been fully "digested" yet.

Fleming. (Off-the-record comments).

Brown. System credit policies since the last meeting of the Council have been extremely well handled. The Council may say it has no material change to suggest in present policies under current conditions. The Council is in accord with the policies of the System in open market operations, in leaving the rediscount rate unchanged, and in raising margin requirements on stocks. The psychological effect of raising margin requirements was beneficial. If the stock market continues to rise rapidly, even if there is no undue use of credit, the Council believes consideration should be given to an additional increase in margin requirements.

The meeting adjourned at 5:45 P.M.

THE COUNCIL CONVENED AT 10:00 A.M. ON FEBRUARY 14, 1955, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT EXCEPT MR. DENTON, WHO HAD TO RETURN TO HIS BANK TO ATTEND A BOARD MEETING.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on February 15, 1955. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 11:40 A.M. on February 14, 1955. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 11:20 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 15, 1955

1. The Board would like to have the comments of the members of the Council on the business and economic outlook throughout the winter and spring months and the probable demand for bank loans in that period compared with the same period in 1954.

Business activity generally is at a high level in all the districts. The automobile and construction industries, which affect the production of many other major industries, especially steel, are in a significant measure responsible for the increased volume of business in recent weeks. Retail sales are good. Inventory accumulation is moderate. Consumer demand is strong, and business sentiment is favorable.

The members of the Council believe that the business and economic outlook for the winter and spring months is good. In most of the districts it is expected that loans for business and commercial purposes will be slightly less than in the first half of 1954. But an increase in loans on real estate, for consumer credit, to investment dealers, and to mortgage bankers to finance new construction will more than offset any decrease in business and commercial loans so that total bank loans for the winter and spring months will be slightly above the preceding year, with some variation probable from district to district.

2. In addition to the views of the Council on the general business situation, the Board is interested in knowing the thinking of the members of the Council with respect to the following matters:

- a. The Board would like to have the views of the Council with respect to arrangements recently made by insurance companies under which they place temporarily with banks mortgages acquired by the companies.

For a number of years, it has been customary for mortgage brokers representing insurance companies to borrow temporarily from local banks for the purpose of carrying mortgages to be acquired by the insurance companies under commitments given by them. In many cases the carry is for a period beyond the date on which the insurance companies had originally planned or contracted to take up the mortgages. Such extended carrying arrangements are ordinarily made by the mortgage broker after a request by the insurance company to him. Occasionally the insurance company will make a direct request to a bank for such a carry.

The Council is aware of one important recent case in which an insurance company has arranged for banks to carry mortgages already owned

by it under a repurchase agreement. The Council understands that in this instance the insurance company does not operate primarily through mortgage brokers, but through its own direct agents. The transaction to which reference is made is obviously neither illegal nor improper.

There have been in banks over the years many types of carrying arrangements, and they have been helpful in the desirable objective of evening out the flow of savings into investment. The increase at present in the volume of such carrying arrangements stems in part from the housing boom, and may be an indication of a possible inadequacy of savings, or capital formation, to meet current capital expenditures. Any sustained tendency for capital expenditures to outrun capital formation will result in inflation with its attendant economic problems.

- b. To what extent is money borrowed from banks in the form of "non-purpose" loans being used to purchase stocks? What could be done by bank supervisory authorities to restrict such borrowing should it become excessive?

The members of the Council believe that the amount of "non-purpose" loans which have been made to purchase stocks is relatively insignificant, and that no recent important increase in such loans has occurred. However, it is difficult and often impossible clearly to trace the ultimate use made of borrowed funds. In the case of "non-purpose" loans, there does not appear to be any satisfactory and effective way of policing such loans which policing would not involve banks in constant and continuing harassment of their customers. The Council does not believe that there is any present or threatened situation which would warrant further action by the supervisory authorities.

- c. Concern continues to be expressed in some quarters as to the soundness of current developments in the residential construction and mortgage field. To what extent do the members of the Council share this concern?

The housing boom which was experienced in 1954, and is continuing into 1955, has been a major influence in sustaining the entire economy. However, the present extraordinary rate of housing starts is in a large measure the result of the exceptionally liberal terms established by legislation last year. With the current upturn in business, the Council is concerned that the continuing encouragement to a further expansion in the housing boom, due to the present legislation, will ultimately have unfortunate repercussions in the economy. The members of the Council therefore believe that present legislation should be changed to provide (1) that reasonable down payments be made on FHA and VA mortgages and (2) that maturities be shortened.

- d. What will be the trends in consumer credit and particularly in consumer instalment credit during the next six months?

The members of the Council believe that consumer credit and consumer instalment credit will increase during the next six months, because of the high rate of automobile sales, and the increase in housing completions with the demand new houses create for various types of household equipment. The liberalized provisions of Title I may also tend to increase the volume of instalment credit.

3. What have been the effects of System credit policies since the last meeting of the Council? Should these policies be changed in any way in the light of the business and economic situation in the foreseeable future?

System credit policies since the last meeting of the Council have been extremely well handled and have been helpful to the economy. The Council is in accord with the actions of the System in open market operations, in leaving the rediscount rate unchanged, and in raising margin requirements on stocks. The main effect of raising margin requirements was psychological, but was constructive.

The Council has no change to suggest in System credit policies under present conditions. However, if stock market prices should have a further rapid rise, even if it involves no appreciable further use of credit, the Council believes consideration should be given to an additional increase in margin requirements.

ON FEBRUARY 15, 1955, AT 10:30 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN; GOVERNORS SZYMCZAK, EVANS, VARDAMAN, ROBERTSON, MILLS AND BALDERSTON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS, WERE ALSO PRESENT.

ITEM I

THE BOARD WOULD LIKE TO HAVE THE COMMENTS OF THE MEMBERS OF THE COUNCIL ON THE BUSINESS AND ECONOMIC OUTLOOK THROUGHOUT THE WINTER AND SPRING MONTHS AND THE PROBABLE DEMAND FOR BANK LOANS IN THAT PERIOD COMPARED WITH THE SAME PERIOD IN 1954.

Brown reports the election of the following officers of the Council:

Edward E. Brown, President
Robert V. Fleming, Vice President
William D. Ireland, Director
Henry C. Alexander, Director
Frank R. Denton, Director
Herbert V. Prochnow, Secretary

Brown reads Item I and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The members of the Council are agreed regarding the business outlook through the Spring of 1955. The Council appreciates the fact that the Board did not ask for the views of the Council regarding the outlook for the last six months of 1955. Some members of the Council have considerable doubt about the continuance of the high level of activity. For example, it does not seem possible that automobile output can continue at the present high level.

Martin. How much impact does the earlier introduction of new automobile models have on seasonal trends?

Alexander thinks automobile production of 160,000 or 165,000 cars a week is at a level that even the most optimistic persons do not believe can be maintained throughout 1955. He believes the Spring season has been quite fully anticipated, and the automobile output has been a real factor in the upward movement of industrial production.

Fleming. Car sales in the fifth district are up sharply.

Martin asks whether these car sales are being borrowed from the usual Spring sales.

Denton reports that his district is concerned with those industries which supply the materials that go into cars. A number of producers of materials are concerned about what will happen after the present "early Spring" sales of the automobile companies. New cars are selling at a discount. Denton believes that new car sales are borrowing from next Spring and Summer.

Alexander believes that automobile sales will be helped by an easing of installment sales terms.

Brown. The demand for all kinds of appliances is strong.

Denton does not think that total loans in the first half of 1955 will equal total loans in the first half of 1954 in his district.

Vardaman asks whether there is any indication on the part of merchants that they are increasing inventories. He also asks whether banks are interested in financing such inventory accumulation.

Alexander. The general tone of business is optimistic, but merchants are cautious about building inventories. The banks are still out after loans, and are anxious to make them. Many loan inquiries are related to term loans. Businesses want standby arrangements. Some term loans are as long as ten or twelve years. The borrowing companies desire an easier position than that afforded by their regular borrowing. Instead of using debentures, for example, many companies prefer the term loan, because of its less restrictive features.

Brown states that his bank has many large department stores as customers. Recently these stores began to follow a policy of not reducing inventories, but of holding inventories steady. However, the stores at present are not accumulating inventories. The automobile agencies are accumulating inventories because they desire to hold their agencies.

Alexander. (Off-the-record comments).

Brown. (Off-the-record comments).

ITEM II

IN ADDITION TO THE VIEWS OF THE COUNCIL ON THE GENERAL BUSINESS SITUATION, THE BOARD IS INTERESTED IN KNOWING THE THINKING OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE FOLLOWING MATTERS:

- a. THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL WITH RESPECT TO ARRANGEMENTS RECENTLY MADE BY INSURANCE COMPANIES UNDER WHICH THEY PLACE TEMPORARILY WITH BANKS MORTGAGES ACQUIRED BY THE COMPANIES.

Brown reads Item II (a) and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. (Off-the-record comments). Brown outlines the practice which insurance companies and mortgage brokers have followed in the past in financing mortgages through banks. Present indications are that capital formation is not keeping up with capital expenditures. He asks whether the Board knows of any other cases, such as the recent large transaction which was described in the newspapers.

Martin says there are other cases and "stirrings" of this type.

Denton. Is this any different from the practice of brokers borrowing at banks?

Martin. The processes are similar, except that when an insurance company pledges mortgages to borrow still more, it is the beginning of pyramiding. There is the danger of carrying it to excess.

Vardaman thinks that as long as it is the big companies that operate across the country who do it, it is not so dangerous. However, if local insurance companies follow this practice, it might be dangerous.

Alexander states that banks throughout the country are carrying mortgages for brokers, and in general this process is desirable, as it evens out the flow of savings into capital expenditures. However, he thinks it is a different matter, as Chairman Martin indicates, to borrow on mortgages for savings which are to come in the future.

Ireland has seen no evidence that there is an important move in the direction of this type of financing. (Off-the-record comments).

Mitchell. There is no significant move in his district to this type of financing.

Denton states that in his experience the mortgage brokers, not the insurance companies, initiate the move for mortgage financing.

Mitchell reports that the loans of his bank are to mortgage brokers and are of the type which Alexander has indicated even out the flow of savings into investment.

ITEM II

b. TO WHAT EXTENT IS MONEY BORROWED FROM BANKS IN THE FORM OF "NON-PURPOSE" LOANS BEING USED TO PURCHASE STOCKS? WHAT COULD BE DONE BY BANK SUPERVISORY AUTHORITIES TO RESTRICT SUCH BORROWING SHOULD IT BECOME EXCESSIVE?

Brown reads Item II (b) and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown reports that none of the members of the Council have seen any important increase in "non-purpose" loans. Brown gives illustrations of the difficulty of tracing the use of borrowed funds.

Fleming asks whether the power given by Congress provides for the regulation of "non-purpose" loans.

Szymczak. The regulation relates solely to the purpose of the loan.

Vardaman. The Board cannot delve into "non-purpose" loans.

ITEM II

c. CONCERN CONTINUES TO BE EXPRESSED IN SOME QUARTERS AS TO THE SOUNDNESS OF CURRENT DEVELOPMENTS IN THE RESIDENTIAL CONSTRUCTION AND MORTGAGE FIELD. TO WHAT EXTENT DO THE MEMBERS OF THE COUNCIL SHARE THIS CONCERN?

Brown reads Item II (c) and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Every member of the Council is concerned over the housing boom. The rate of housing starts is in excess of the rate of family formation. Some persons have suggested that the present housing legislation, which expires in 1957, should be extended in order to lessen the rush to build now. Brown believes this would be unwise.

Fleming. The situation is a very difficult one, as it involves legislation.

Chandler. The housing boom is now extending into the smaller towns.

Martin asks whether over-housing is here. There is a marked difference of opinion on this question, especially in different areas.

Davis believes it depends on the area. Baton Rouge and New Orleans are short of housing. He believes something may be done about the housing problem. He is not quite so concerned about the number of houses as he is about the quality. The housing authorities are short of staff. With a better staff they might be able to resist the pressure and lessen the starts. The legislation was meant not to make it cheaper to own a home than to rent one, but this is true now. It is easier to own a house than it is to rent one.

Wallace believes that when the maturity of a mortgage is held to twenty years, the buyer expects to own a home, but when the maturity is extended to twenty-five or thirty years, he has practically no equity. With a thirty-year maturity, there is practically no limit to the number of houses that will be built. We are making transients out of our young people.

Balderston. What effect would over-building and a collapse have on the value of present homes and on mortgage financing institutions?

Brown. (Off-the-record comments).

Fleming. (Off-the-record comments).

Matkin. Houses are sold on a contract basis, but so little is paid down that the buyer can walk off.

Brown. If this is a fair question, what does the Board think can be done in the absence of legislation?

Martin. The Board, as such, has no view on this matter. Personally, Martin believes that unless we are sure we have an over-housed situation, money and credit is not the way to handle it. He believes the situation is bad.

Ringland thinks it might be a good idea to have the Board Staff analyze this whole problem.

Ireland. (Off-the-record comments).

Martin. (Off-the-record comments).

Brown. All the members of the Council have a real concern over the situation.

Martin. (Off-the-record comments).

ITEM II

d. WHAT WILL BE THE TRENDS IN CONSUMER CREDIT AND PARTICULARLY IN CONSUMER INSTALLMENT CREDIT DURING THE NEXT SIX MONTHS?

Brown reads Item II (d) and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. All members of the Council believe consumer credit will increase in the months ahead.

Martin. Is there any concern regarding this increase in consumer credit?

Alexander has some concern.

Robertson. Will excess production in various industries result in longer credit terms and lower rates in order to move products? Robertson thinks this may be a real danger.

Brown. The Council believes that competition is forcing easier terms, but the Council did not discuss whether the Board should be given power under Regulation D to regulate such credit. Brown's personal opinion is that now is not the time to give the Board the powers of Regulation D.

Alexander. The last time the Council voted it was 11 to 1 against giving such powers. Alexander shares Robertson's views of the danger that terms may be eased because of excess production.

Vardaman. Advertising is appearing now in Washington that you can buy a car for so much a month with no down payment.

Ringland. Almost every important automobile dealer in the Twin Cities has a finance company of his own. If he gives too liberal terms, the banks can decline to extend credit to his finance company.

ITEM III

WHAT HAVE BEEN THE EFFECTS OF SYSTEM CREDIT POLICIES SINCE THE LAST MEETING OF THE COUNCIL? SHOULD THESE POLICIES BE CHANGED IN ANY WAY IN THE LIGHT OF THE BUSINESS AND ECONOMIC SITUATION IN THE FORESEEABLE FUTURE?

Brown reads Item III and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. At the present time, the Council does not feel any need for a change in the rediscount rate. The Council is concerned with the rise in the stock market. The Council believes that raising margin requirements was largely a psychological move, but it did give the market a timely warning.

Alexander. The open market operations have been excellent. If the stock market should have a further sharp rise, Alexander would favor raising margin requirements again. He thinks the System's credit policies have been very good.

Brown states that, speaking for himself, if there is evidence that capital formation is failing to keep up with capital expenditures, he would raise the rediscount rate. He does not think the time is here yet.

Alexander agrees.

Martin expresses appreciation to the Council for its views on the items on the agenda. He states that these views have been very helpful.

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Martin reports that Congressman Patman has introduced a bill which provides for auditing the Federal Reserve banks.

Fleming states that he is opposed to any such bill.

Brown reports that the Council has always opposed such a bill, and he believes the American Bankers Association and other banking groups would oppose it.

Vardaman states that, speaking for himself, he is opposed to such an audit of the Federal Reserve banks. The Federal Reserve System is an instrumentality of the Congress. If any accounting group, such as, G. A. O., or the Bureau of the Budget, is set up between the Congress and the Federal Reserve System, the System may be inclined to look more to the accounting group than to Congress, whose creature the System is. However, the System is partly responsible for Patman's proposed legislation, because the System has not given a full accounting to the Congress.

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Martin asks Robertson to report on the new Holding Company Bill.

Robertson made the following report:

There are two holding company bills pending, one in the House by Representative Spence and one in the Senate. This bill is probably the most severe piece of legislation that has been introduced since 1941. It is not a death sentence as was the bill in 1938. It is a freeze bill and would eventually mean a death sentence. It defines a bank holding company as one holding 25 per cent or more of the stock of two banks. It would require divestment of nonbanking business, would vest supervisory authority in the Federal Reserve, and would require approval of expansion, but it would make it impossible for a holding company to expand in any State except where its home office was located, and not even in those States unless specific legislation authorized it. There is no state having such legislation now.

The Board will have to submit a report and testify on the bill about February 28. Robertson would guess the Board would be inclined to take the same position it took two years ago, that the legislation should be minimum rather than maximum legislation. It should be as simple as possible, should be adequate to cover those companies that ought to be covered, and should not give discretion to bring in others. It should require divestment of non-banking businesses, and should require approval of expansions. The Board now would probably differ from that position by this refinement: before, we had the exceptions in the definition of holding companies. Today the feeling is that there should be no exceptions in the definition, but the exceptions should be in the divestment section rather than in the definition. The feeling would be that no matter what group you have - religious or charitable or what - they ought to be required to get approval. The present bill would exclude mutual savings banks. The Board would take the position it is not espousing legislation, and it does not care, which agency is in charge of administering the law. We think if it is simple and policed by a criminal provision rather than a civil one it does not make any difference who administers it.

In response to a question, Governor Robertson said he thought there was a better chance for an enactment of holding company legislation this year than at any time in the past five years. He would give it about a fifty-fifty chance. He then commented on a provision which would provide for a freeze of existing holding companies in the absence of specific state legislation authorizing them to expand. He noted that the administering agency would get recommendations of state authorities and the Comptroller of the Currency before permitting expansion. Robertson said the farthest the law should go was that if a holding company cannot expand in a specific state, the administering agency would not authorize such expansion. He noted that some of the holding companies would prefer that the administering agency be required to accept the recommendation of a state supervisory authority, whereas his view was that the administering agency should consider such a recommendation but reach its own decision, except in the case where the law specifically prohibits expansion in a state.

Ringland believes the implications of the bill are more far-reaching than seem apparent. This whole question may bring up the subject of branch banking in some states.

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Fleming expresses appreciation to the Board for the presentation given by the Board Staff on business conditions on Monday, February 14, 1955.

The meeting adjourned at 12:55 P.M.

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The next meeting of the Council will be held on May 15, 16 and 17, 1955.